From: Lucile Beckwith [beckwith@paltrustcu.coop]
Sent: Monday, April 06, 2009 3:26 PM
To: _Regulatory Comments
Subject: Lucile Beckwith - Comments on Advanced Notice of Proposed Rulemaking for Part 704

Palmetto Trust Federal Credit Union
Post Office Box 2028
Columbia, South Carolina 29202-2028

April 4, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

Via email: regcomments@ncua.gov.

RE: Advance Notice of Proposed Rulemaking: Corporate Credit Unions

Dear Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland,

Palmetto Trust Federal Credit Union is a small, under $20 million, credit union that serves federal employees and a few small select employee groups and their family members. As PTFCU's CEO my directors have always encouraged me to serve in any way to help the growth of the credit union movement and provide better service for all credit union members. In one of my volunteer positions I have served as an elected director of the First Carolina Corporate Credit Union since 1995 and the Carolina Corporate Credit Union before the 1995 merger with FCCCU. I represent the smallest asset size on the FCCCU board; but, am definitely not the smallest voice. I have a very close working relationship with all South Carolina credit unions and many North Carolina credit unions, especially those of small and medium size. FCCCU has chosen to meet the needs of our two core states by providing payment and clearing services, including access to wire transfer facilities and automated clearing house transactions. FCCCU enables smaller credit unions to achieve economies of scale and access to greater market returns by providing investment services otherwise unavailable to them. FCCCU represents the conservative views of the credit unions in our demographic area. The directors and management of FCCCU have always chosen safety and soundness over high return, high risk investments which reflect the conservative natural person credit unions who have always deposited their funds in complete trust.

The vast majority of us understand that it is the frozen market crisis that is causing the huge unrealized loss write-downs. And, those of us who are older realize and advise that a very small percentage of these unrealized losses will become actual losses over time. FASB has just made changes to the Mark to Market rule which we anticipate will affect your models in a way which will drastically cut the write-downs to the NCUSIF you have required. We look forward to backing off a large portion of these losses on our financials in the second or third quarter. That is, if NCUA does what is truly in the best interests of the credit unions it regulates?

A large regional corporate would never be able to provide for the smaller credit unions in the same way as FCCCU. Some of the larger corporates in our system now are examples of the “large” philosophy which uses rates and pricing tiered to the advantage of the largest credit unions. This is why small and medium size credit unions see the plan of the NCUA to have “four to six regional corporate credit unions” as an actual threat to our very existence. The relative size of FCCCU allows it to give services of scale to the small and medium size credit unions in a way that a large regional corporate would never be able to do. I feel the NCUA will endanger ALL small and medium size credit unions if your decision is to force the reduction of the current twenty-six corporates down to four or six.

The corporate system, as it is now, provides partnerships that offer better services and economies of scale for small and medium size credit unions; and, the larger credit unions have the expertise and can chose to use outside vendors if the corporates do not meet their needs as well. If small and medium size credit unions are forced by NCUA changes to move our services and products provided by FCCCU to outside vendors the costs will be much more expensive. And, our members will not be happy when we explain why we had to increase their costs or drop services no longer affordable because of large-scale changes to corporate structure made by the NCUA.

Time will tell if the street news that it is the plan of the NCUA to destroy all credit unions under $100 million in assets and have four regional NCUA governed corporates is true. I feel the NCUA, as our regulator, failed us in not foreseeing this market crisis as much as any corporate did. You had NCUA staff in US Central and, more important, your headquarters in our nation’s capitol – why did you not know the pulse of Wall Street?

But, my directors and I will hope for sane minds to prevail as it is crucial that the corporate credit union system continue to serve natural person credit unions in such a way as to perpetuate and preserve the small and medium size credit unions. In this time of financial crisis PTFCU needs to be able to provide our members who seek small financial institutions with prudent and frugal financial services. The corporate system, through FCCCU, has always provided us the ability to serve our members in this way. In fact, natural person credit unions created corporate credit unions because we could not get reasonable services from the vendors at that time; thirty-four years of credit union experience provide that knowledge. Along with the knowledge that retail corporate credit unions should continue to be governed by natural person credit union officials; not the NCUA.

And, I, as long as elected or asked to serve in any capacity, will listen, again and again, so that I will truly represent and be the voice of those I serve. The voices I hear now ask repeatedly that I do whatever is necessary to keep First Carolina Corporate Credit Union as their valued and trusted partner. So, in turn, I ask of you to listen well to those you regulate; those who serve the more than ninety million Americans who choose to use and want to keep their credit unions.

Sincerely,

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Reply to the ANPR:

1. The Role of Corporates in the Credit Union System

Reply of Palmetto Trust FCU:

Payment system

The corporate system, for us through FCCCU, provides us with vital payment systems including the settlement activity of our credit union and our members' share drafts and ACH activities and wire transfers. FCCCU also provides us with overnight deposits and loan functions. The settlement and funds transfer services are connected and it would increase our costs to separate these functions. Our share drafts are processed by Palmetto Cooperative Services (PCS) of Columbia, SC, who work together with FCCCU to handle our settlement activity. The Federal Reserve representatives in multiple states actually recommend PCS for share draft processing working along with any corporate used by credit unions for settlement. South and North Carolina have always created business functions to meet our natural person credit unions' needs; and, when feasible, shared them outside of our core. We trust and rely on FCCCU to provide a variety of settlement, investment and correspondent services to help us provide services to our members and manage our financials. FCCCU provides us with both short and longer term investments to meet our natural person credit union liquidity needs.

In summary, we feel that the separation of the payment system and the liquidity system
is neither feasible nor desirable. Continued excellent management, policies, natural person credit union board governance, and regulatory oversight, of the current corporate system will continue to work in the best interest of the North and South Carolina credit unions.

Liquidity and liquidity management

Limiting the corporates ability to offer other products and services could destroy the small and medium size credit unions. We have come to trust and rely on the variety of liquidity, investment and correspondent services provided by FCCCU. And, we really do see the FCCCU staff as an extension of our own staff.

Liquidity to meet settlement needs has never been as issue at FCCCU because it is and always has been historically studied and carefully monitored; as evidenced by the FCCCU board reports I have reviewed for years.

Liquidity is, again, a major need provided by FCCCU for our small credit union which would not have the staff, expertise, or time to manage our liquidity as well as we do without their help.
FCCCU, whom we TRUST over any vendor, provides investment choices we would never have the expertise or time to seek out or research.

The CLF is a very valuable and available liquidity tool that the NCUA should have utilized more to help corporates through this credit and liquidity crisis.

Field of Membership Issues

We need national fields of membership to accommodate the "spreading out" of large credit union deposits so as to not diminish the capital ratios of any one corporate. In fact, this is a very good argument against having only four to six corporates. We certainly don't want to force our larger credit unions to make deposits in banks, our legislative and competitive enemy!

However, some corporates bent on deposit growth grew their financials by requiring minimal capital from new, non-core, credit unions. This shifted the risk to their core – fully capitalizing – credit unions. They also tiered their rates and service costs to keep larger credit union business at the expense of the small and medium size credit unions. Therefore, we feel that full capital should be required at every corporate that a natural person credit union uses. And, capital requirement should be the same at all corporates while building back capital erased by the criminals at the Wall Street rating agencies and security bundlers.

Expanded Investment Authority

Let me be very clear. Today's financial crisis was caused by underwriters lending monies inappropriately augmented by rating agencies giving AAA ratings to CCC paper. And, I sincerely request that the NCUA board members work diligently to help prosecute and convict those responsible for these criminal activities. I have said since the early 1990's that greed was going to bring America to its knees – and, I deeply regret being right! It will take many years for Wall Street to gain back TRUST and America to live down our shame.

Mark to Market write-downs are not only affecting credit unions but other non-profits as well. Endowments at hospitals, churches, charities, universities, colleges, orchestras, museums and retirement funds everywhere relied on the AAA investment ratings. The revised FASB Mark to Market ruling should bring relief from unnecessary write-downs to credit unions as well as those mentioned above.

Let's be honest. There would be no unrealized losses at US Central or WesCorp if the Wall Street rating agencies and investment companies had not corrupted the AAA rating. We need serious regulation of these entities to safeguard against future corrupt activity.

Under reg 704 I believe that ONLY US Central should have been allowed expanded investment authority because this obviously created unnecessary competition among some corporates who were granted the expanded authority. FCCCU never sought expanded investment authority because our conservative credit union base wanted safety and liquidity over yield. My directors trust and support FCCCU but I am not sure they would vote to re-capitalize any other corporate; particularly a much larger regional one with expanded investment authority.

Structure; two-tiered system

The two-tier corporate system has served the entire credit union system well until betrayed by Wall Street greed. You must continue to allow corporates to provide a variety of services and products in economies of scale not normally affordable to small or medium size credit unions. Why? Because our members need and want these services and products provided by small institutions whose staffs actually care about their financial health. We created the two-tier corporate system to provide credit unions with centralized resources for the benefit of economies of scale. If we lose this benefit we will lose many small and medium size credit unions.

2. Corporate Capital

Core capital

I have felt for a long time that corporates should transition to the Basel capital standards. The only problem with Basel standards is because of seasonal and crisis (bank or stock market) influxes of deposits corporates need to continue using the 12-month rolling average daily net assets to calculate capital ratios rather than the month-end assets. Unlike banks, we have to earn capital not just entice more capital stockholders; so, we need more adjustment time. Of course, there is talk of changes being made to the Basel capital standards due to the current financial crisis which would require study of how any changes would affect corporates. We also think that corporates should be allowed to pay back member contributed capital as they grow retained earnings as long as all minimum capital ratios are exceeded.

Membership capital

We feel that any natural person credit union should be required to have capital in any corporate with which it has deposit dealings; that will assure that all share the same risk. We think an annual adjustment based on shares is adequate.

Risk-based capital and contributed capital requirements

If corporates follow Basel capital standards then they would be subject to a risk-based capital standard as well as a minimum Tier One capital level. We believe these risk-based capital standards would be appropriate. We also believe the calculation for determining a credit union's required capital contribution should be standardized across all corporate; again, balancing the risk on all credit unions using deposit services.

3. Permissible Investments

As long as corporates could trust the AAA ratings investing, agency mortgage and asset-backed securities provided good cash flow and yield to give good returns to their natural person credit union members with little risk. Since Wall Street has lost our trust guidelines need to be put into place to restrict concentration risks in a variety of asset classes and instruments. And, NCUA should hire the expertise to study the new and creative offerings of Wall Street to quickly update guidelines as needed. Corporate investments should be conservative and should be liquid on the secondary market. Natural person credit unions need for the corporate staffs to have the expertise to provide us with good returns with minimal risks; just as they have done for several decades. And, the NCUA needs to push Congress for more regulation of rating agencies and firms who bundle the securities for sale.

4. Credit Risk Management

We feel that NCUA should be a part of the review and much needed regulation of NRSRO. If the rating agencies had done their work correctly the inappropriate mortgages would not have received AAA ratings and the underwriters would have stopped making these risky mortgages – the underwriters certainly did not want to hold this mortgage paper themselves! After review and regulations we feel that NRSRO will eventually re-gain trust. In the meantime we should require two ratings before investment purchases. We can't afford to put all investments in Treasuries so we have to have faith the agencies are now self-correcting in hopes of avoiding extreme regulations. Corporates should also have tighter concentration limits to avoid concentration risk.
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5. Asset Liability Management

Is there an asset liability management model that factors in corrupt underwriters and rating agencies? Current events seem to say we should have such a model; but, then it would be impossible to invest.

ALM models need to be validated on a timely basis to include rapidly changing risk measures. Different models, or combinations, of spread, net income simulation and other risk measures need to be used.

6. Corporate Governance

Retail corporate level: We believe the current process of the natural person credit union membership election of non-compensated directors of the corporates is appropriate for the credit union system. We think that ALCO committees should have representation from staff and board who have some expertise with ALM functions.

Wholesale corporate level: We believe that the wholesale level organization should have directors from both corporates and natural person credit unions. The natural person credit union representatives would essentially serve as "outside directors" and could be elected from credit unions that have capital in the corporate network.

We would strongly suggest some small or medium size credit union representation be assured at each level of governance. We are also very much against any person that is not in some way within the credit union system serving as an "outside director" at any level.

Compensation of directors seems to be related to the use of outside directors as it would be difficult to get someone from outside the credit union system to serve on a board as a volunteer. Compensation for serving is not appropriate for any corporate director – "outside or inside."

Term limits are not a good thing. The knowledge of history is most important on any board or committee. As I have served on multiple business and community boards and committees it has been my observance that those with term limits have been greatly disadvantaged. It is an advantage to use the memories of those who know the history of five, ten, twenty, thirty, or more years as organization resources; you miss them when they are not longer available. And, annual elections and natural attrition always provide that seats are filled with new people without mandatory rotation off. FCCCU does have a good tradition of rotating its board officers to fully utilize the talents of all.

Minimum qualifications seem to be met in the corporate election process along with diversity of representation from all credit union sectors. Credit unions aren't going to elect unqualified persons to corporate boards. Corporate board training is on-going to cover the complexities of changing operations, regulations and investment authorities.